

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 QUITO 7593

E.O. 11652: GDS

TAGS: PFOR BPEX MASS EC

SUBJ: IMPLICATION OF OF GOE BID FOR FRIGATE CONSTRUCTION

REF: QUITO 7587

1. SUMMARY: IN SEEKING TO MODERNIZE ITS SMALL FLEET, THE ECUADOREAN NAVY (EN) WOULD PREFER A PACKAGE DEAL CONSISTING OF THE UNITS, TRAINING AND SUPPORT ARRANGEMENTS, GIVING US SUPPLIERS AND T HE US NAVY AN ADVANTAGE. THE REQUEST FOR BIDS FROM US COMPANIES FOR COMMERCIALY BUILT, NEW-CONSTRUCTION NAVAL UNITS OF A FRIGATE/DESTROYER ESCORT TYPE (REFTEL) REFLECTS THIS DECISION. THE EMBASSY RECOMMENDS THAT US SHIP BUILDERS BE PERMITTED TO BID ON AND SUPPLY SUCH SHIPS FOR SOUND MILITARY, POLITICAL AND ECONOMIC (POTENTIAL \$450 MILLION CONTRACT) REASONS. WHILE THERE MAY BE SOME OBJECTIONS STEMMING FROM THE SUPERFICIAL JUXTA POSITION OF THE TUNA FISHING PROBLEM, SUCH CONNECTION DOES NOT STAND UP ON EXAMINATION. IN FACT, APPROVAL OF SHIP PURCHASES WOULD HAVE POSITIVE EFFECT ON FISHING PROBLEM. OUR WILLING-NESS TO COOPERATE IN SALES IS SEEN BY GOE AS LITMUS TEST IN THE IMPROVEMENT OF OUR BILATERAL RELATIONS AND AS SUCH HAS LONG-TERM POLITICAL IMPLICATIONS. END SUMMARY

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2. THE EN EMBARKED UPON A FORCE MODERNIZATION PROGRAM IN

1971 IN VIEW OF THE FACT ITS MAJOR UNITS AT THATTIME WERE INOPERABLE OR ABOUT TO BECOME SO. PURSUANT TO THAT PROGRAM, IN 1972 THE EN PURCHASED THREE NEW "JAGUAR" CLASS PATROL BOATS FROM THE FRG. IN MID-1976 IT TOOK DELIVERY OF THE FIRST OF THREE EXOCET MISSILE-LAUNCHING PATROL CRAFT (MODIFIED TYPE 148), ALSO PURCHASED FROM THE FRG. A SECOND CRAFT IS TO ARRIVE SHORTLY. TWO-1000-TON SUBMARINES, ALSO ORDERED FROM WEST GERMANY IN 1971, ARE SCHEDULED FOR DELIVERY IN COMING COMING MONTHS (ONE HAS ALREADY BEEN COMMISSIONED).

3. TO COMPLETE ITS MODERNIZATION, THE EN HAS MADE PLANS TO CONTRACT FOR THE CONSTRUCTION OF UP TO SIX 1000-2500 TON FRIGATES WITH AA/ASW/ANTI-SURFACE SHIP CAPABILITY. OVER THE PAST THREE YEARS THE EN HAS INVITED BIDS FROM WESTERN EUROPEAN COUNTRIES (UK, FRG, ITALY) FOR THE CONSTRUCTION OF SUCH FRIGATES. TO DATE THEY HAVE NOT CONTRACTED FOR THEM, CITING PROBLEMS OF EXCESSIVELY HIGH COST, LONG DELIVERY TIME, AND LACK OF LONG-TERM SPARE PART AND TRAINING AVAILABILITY. FOR THIS AND OTHER REASONS, EN DECIDED TO BUY FROM US SOURCES IF AT ALL POSSIBLE AS REFLECTED IN THE REQUEST FOR TENDER OF BIDS CONTAINED IN REFTEL. THE EN IS, HOWEVER, DETERMINED TO BUY SHIPS OF THIS TYPE AND WILL RESORT TO WESTERN EUROPEAN SOURCES, IN SPITE OF THEIR FAILINGS, IF US SOURCES ARE DENIED TO THEM.

4. PARENTHETICALLY, THE EN'S LONG-STANDING REQUEST FOR "HOT-SHIP" TRANSFER OF ONE OR TWO US DESTROYERS (DD) OR DESTROYER ESCORTS (DE) AT THE EARLIEST POSSIBLE DATE IS AN INTEGRAL PART OF THE PLAN TO ACQUIRE FRIGATES. THE EN INTENDS TO USE DDS OR DES AS INTERIM UNITS PENDING DELIVERY OF FRIGATES AND, AT THE SAME TIME, PROVIDE AN INCREASED TRAINING CAPACITY IN ANTICIPATION OF THEIR ARRIVAL. THE EN UNDERSTANDS THAT DDS OR DES OBTAINED ON "HOT-SHIP" TRANSFER WILL HAVE A USEFUL LIFE OF 3-5 YEARS. THE EMBASSY IS AWARE, AS IS THE EN, THAT THE EARLIEST SUCH "HOT-SHIP" TRANSFERS WILL BE AVAILABLE IS FY 79, WHICH WOULD STILL PROVIDE AT LEAST TWO YEARS OF USE BEFORE DELIVERY OF FRIGATES IN FY 81 OR LATER. THE TWO REQUESTS, HOWEVER, ARE SIMILAR.

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5. THE FOLLOWING DETAILED JUSTIFICATION IS INTENDED TO SERVE NOT ONLY FOR CONSIDERATION OF THE EN REQUEST WITHIN THE EXECUTIVE BRANCH, BUT ALSO FOR USE WITH CONGRESS. IT REFLECTS OUR UNDERSTANDING THAT NEW SECURITY ASSISTANCE LEGISLATION MAY REQUIRE COMMERCIAL PURCHASE OF THESE UNITS TO BE TREATED LIKE AN FMS CASE. NEVERTHELESS, IN THE EVENT WE ARE FOR SOE REASON UNABLE TO COMPLY FULLY WITH THE EN REQUEST FOR A COMPLETE PACKAGE, INCLUDING SOME FMS, IT OCCURS TO US THAT US MANUFACTURERS COULD STILL

REAP THE MAJOR SHARE OF THE GOE'S PURCHASE: PERSUMABLE, A FRAGATE-TYPE VESSEL WITHOUT ANY WEAPONS SYSTEMS IN PLACE COULD BE PURCHASED ON A PURELY COMMERCIAL BASIS WITHOUT FALLING UNDER FMS RESTRICTIONS AND IF SO, THEN PERHAPS WE COULD CONVINCE THE EN TO HAVE US SHIPBUILDERS CONSTRUCT THE SHIPS BUT TO HAVE THEM ARMED IN EUROPE.

6. THE PURCHASE OF FRIGATES CAN BE JUSTIFIED IN MILITARY TERMS PRIMARILY IN VIEW OF THE ECUADOREAN PERCEIVED "THREAT" FROM PERU, ITS TRADITIONALLY SUSPECT NEIGHBOR. PERU HAS ORDERED FOUR ITALIAN "LUPO" CLASS FRIGATES AND HAS RECEIVED 2 OF 4 GERMAN-MADE SUBMARINES OF THE SAME CLASS AS THOSE ORDERED BY THE EN. ECUADOR HAS CONSIDERABLE COASTLINE TO DEFEND NOT ONLY FROM PERU, BUT FROM POSSIBLE TERRORISTS, GUERRILLAS AND EVEN CONTRABAND RUNNERS. MANY IMPORTANT INSTALLATIONS, PARTICULARLY THE NEW REFINERY AT ESMERALDAS, ARE VULNERABLE TO SEAWARD ATTACK FROM EVEN LIGHT CRAFT ARMED WITH SHORT-RANGE CRUISE MISSILES SUCH AS THE EXOCET, OR EVEN FROM THE DECK GUN OF A SURFACED SUBMARINE. NOT PARTICULARLY EFFECTIVE AS OFFENSIVE UNITS IN VIEW OF THE PURCHASE BY NEIGHBORING COUNTRIES OF LARGER CRAFT WITH GREATER POTENTIAL, THE EN SEES THE FRIGATES AS PROVIDING A MINIMALLY CREDIBLE DETERRENT TO ADVENTURES BY PERU.

7. ECONOMICALLY, THE FRIGATE PURCHASE SIGNIFIES FROM \$100 TO \$450 MILLION IN CONTRACTS (SPREAD OUT OVER EIGHT YEARS) WITH ATTENDANT EMPLOYMENT EFFECTS. THE GOE INTENDS TO FINANCE THIS PURCHASE WITH SUPPLIER CREDITS OF MEDIUM TERM WITH A TWO-YEAR GRACE PERIOD, WHICH SHOULD PERMIT IT TO MINIMIZE BALANCE OF PAYMENTS OR FOREIGN EXCHANGE PROBLEMS CONNECTED WITH A PURCHASE OF THIS MAGNITUDE. IN
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CONNECTION WITH THE POTENTIAL ECONOMIC BENEFIT FOR THE US OF THIS PURCHASE, WE CAN ONLY RE-EMPHASIZE THAT THE EN WILL PURCHASE SHIPS OF THIS TYPE, AND OUR REFUSAL TO PERMIT US FIRMS TO BID WILL NOT RESULT IN THE GOE REALLOCATING THE SUMS EARMARKED FOR THIS PURCHASE.

8. EMB BELIEVES THAT FOREGOING REPRESENTS MORE THAN ADEQUATE JUSTIFICATION FOR DESIRABILITY OF ALLOWING ECUADOREANS TO PURCHASE SHIPS THEY SEEK AND FOR SUG TO EXPEDITE THE REQUEST. BUT IN MAKING THIS RECOMMENDATION EMB IS ALSO AWARE THAT THE SUPERFICIAL JUXTA POSITION OF THE IMAGE OF PAST TUNA BOAT SEIZURES AND THE SUPPLYING OF FRIGATES MIGHT CREATE DIFFICULTIES. HOWEVER, EMB IS STRONGLY CONVINCED THAT SUCH POTENTIAL OBJECTIONS ARE LESS RATIONAL THAN VISCERAL AND THUS OUGHT TO BE SUSCEPTIBLE TO MODIFICATION. IN OVERCOMING POSSIBLE OBJECTIONS, DEPARTMENT MAY WISH TO CONSIDER FOLLOWING OBSERVATIONS:

--EXTREMELY HIGH PERCENTAGE OF US TUNA BOATS NOW
APPEAR TO BE OBTAINING LICENSES AND ARE OTHERWISE
ABIDING BY ECUADOREAN LAW. IF THIS TREND CONTINUES,
MOST OF OUR SEIZURE PROBLEMS WILL BE PRECLUDED.

--EN AND MAIRNE POLICE HAVE BEEN ABLE TO ENFORCE
FISHING LAWS QUITE ADEQUATELY FOR PAST 15 YEARS WITHOUT
RECOURSE TO FRIGATES. ADDITION OF FRIGATES, EVEN IF
THEY WERE USED TO PURSUE PRESUMABLE SMALL NUMBER OF
TUNA BOATS WHICH ARE STILL FISHING ILLEGALLY, WOULD
BE A VERY MARGINAL CONTRIBUTION TO ECUADOREAN
CAPABILITY.

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ACTION ARA-10

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C O N F I D E N T I A L SECTION 2 OF 2 QUITO 7593

--DELIVERY WOULD NOT BE MADE FOR FOUR YEARS. WITHIN
THAT TIME FRAME PROSPECTS ARE RATHER GOOD FOR THE
CONCLUSION OF A REGIONAL FISHING AGREEMENT WHICH WOULD
REMOVE ENTIRELY SOURCE OF CONFLICT.

--SHOULD SITUATION TAKE A SURPRISING TURN AND DETER-
IORATE, US WOULD STILL HAVE THE OPTION OF DENYING
DELIVERY ANY TIME WITHIN FOUR YEARS.

--FRIGATES WOULD EXERCISE SIGNIFICANT INFLUENCE ON
FISHING PROBLEM ONLY IN CONTINGENCY THAT EITHER US TUNA

BOATS OR US NAVY DECIDED TO CHALLENGE ECUADOREAN FISHING REGIMEN WITH ARMS. SINCE THIS ALTERNATIVE HAS BEEN REJECTED FOR PAST 15 YEARS DURING WHICH TIME TEMPERS WAXED MUCH HOTTER, AND SINCE WE HAVE NOW STRUCK UPON A CLEAR PATH TOWARD ACCOMMODATION RATHER THAN CONFRONTATION, IT IS DIFFICULT TO PERCEIVE ANY FUTURE SITUATION DEGENERATING INTO AN ARMED CLASH WHERE FIREPOWER PROVIDED BY THE FRIGATES WOULD BE OF ANY CONCERN.

9. AS A PRACTICAL MATTER, A DECISION TO PROVIDE SHIPS TO EN WOULD HAVE THE IMMEDIATE EFFECT OF AMELIORATING FISHING DISPUTE AND DIMINISHING THE POSSIBILITY OF A FLARE-UP. EN
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IS EXTREMELY WELL-DISPOSED TOWARD US AND HAS GIVEN SIGNS THAT IT DOES NOT RELISH THE SOURNESS IN ITS RELATIONSHIP WITH THE US CREATED BY THE FISHING PROBLEM. INGRATIATING OURSELVES FURTHER WITH THIS GROUP THROUGH THE PROVISION OF SHIPS OUGHT TO SOLIDIFY THEIR FAVORABLE DISPOSITION OF THIS QUESTION. CONVERSELY, WE CANNOT ESCAPE THE CONCLUSION THAT THE DENIAL OF THE REQUEST WOULD UNDOUBTEDLY PIQUE THEIR SENSE OF DIGNITY AND COULD MAKE THEM MORE FASTIDIOUS IN CARRYING OUT THEIR ENFORCEMENT RESPONSIBILITIES.

10. WE SUSPECT THAT WEST COAST TUNA FISHERMEN ARE POLITICALLY SOPHISTICATED ENOUGH TO BE AWARE OF ABOVE SITUATION AND IF DISCUSSED WITH THEM, WE BELIEVE THAT THEY COULD BE NEUTRALIZED. ALSO PROSPECT THAT SHIP-BUILDING CONTRACT COULD GO TO SAN DIEGO'S NATIONAL STEEL SHIPYARD WOULD SEEM TO BE ANOTHER REASON WHY OBJECTIONS BY TUNA BOAT OWNERS NEED NOT BE DECISIVE.

11. BUT FISHING PROBLEM IS ONLY MOST ACUTE, AND MOST VOLATILE MANIFESTATION OF A BILATERAL POLITICAL RELATIONSHIP WHICH HAS GENERALLY BEEN TORTUOUS AND PRICKLY. ALTHOUGH THE RECURRENCE OF BOAT SEIZURES COULD SERIOUSLY DISRUPT THAT RELATIONSHIP IN THE SHORT RUN, THE DECISION TO SUPPLY SHIPS OR NOT WILL HAVE IMPLICATIONS FOR THE TOTALITY OF THE LONGER-TERM RELATIONSHIP. THE PRESENT MILITARY GOVERNMENT IS HEADED BY VICE ADMIRAL POVEDA WHO IS CONCURRENTLY HEAD OF THE EN. IT GOES WITHOUT SAYING THAT POVEDA FEELS STRONGLY THAT A PURCHASE PACKAGE INCLUDING SPARE PARTS IS THE BEST WAY FOR THE EN TO EQUIP ITSELF EFFECTIVELY. POVEDA, MOREOVER, HAS BEEN THE PRIME FORCE IN LEADING ECUADOR BACK FROM A PERIOD OF CONFRONTATION WITH THE US TO AN ERA OF INCREASED INTIMACY AND CORDIALITY. THIS WAS BEST DEMONSTRATED IN HIS SYMPATHETIC HANDLING OF THE GULF OIL CASE. HOWEVER, POVEDA AND HIS SIMILAR THINKING MATES ALSO HAVE TO CONSIDER THE NEAR PERMANENT UNDERCURRENT OF XENOPHOBIA, RADICALISM, AND JINGOISM IN ECUADOREAN POLITICAL LIFE WHICH HAS SPELLED THE

DOWNFALL OF SEVERAL PREDECESSOR GOVERNMENTS. HE IS UN-
LIKELY TO ACCEPT THE RISKS INHERENT IN SEEKING A WARMER
RELATIONSHIP WITH THE US UNLESS THERE ARE SUFFICIENT MATERIAL
INCENTIVES; AND THE FIRGATES OBVIOUSLY FALL INTO THAT
CATEGORY. FURTHER, THERE IS SUFFICIENT INDICATION THAT
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THE GOE LEADERSHIP NOW CONSIDERS OUR COOPERATION ON SHIP
SALES AS A LITMUS TEST OF US WILLINGNESS TO SHARE IN
THEIR DESIRE TO BRING ABOUT A GENUINE IMPROVEMENT IN THE
BILATERAL RELATIONSHIP. TO REFUSE TO ALLOW ECUADOR TO
CONTRACT COMMERCIALY WOULD BE SEEN AS A GRATUITIOUS SLAP
IN THE FACE AND PROBABLY ARREST THE DEVELOPMENT OF
BETTER RELATIONS.

12. IF OUR ANALYSIS IS CORRECT, WE WOULD SEEM TO BE
APPROACHING SOMETHING OF A CROSSROADS IN OUR BILATERAL
RELATIONSHIP WITH THIS DECISION. AS SUCH, THE DECISION
ON THIS REQUEST SHOULD BE MADE QUICKLY BUT NOT LIGHTLY.
WHEN IT CONSIDERS ALL OF THE IMPLICATIONS, THE EMB TRUSTS
THAT THE DEPARTMENT WILL BE FORTHCOMING ON THIS REQUEST.
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